

Medicaid Funding for Nonprofit Healthcare Organizations

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Need for & Purpose of Research

- Need: Scarce research on nonprofits in certain health sectors; no comprehensive database of funding by sub-sector; little understanding of organizational effects of recent changes
- Purpose: Use available data to estimate role Medicaid plays in funding nonprofits and how changes in Medicaid funding affects nonprofit organizations reliant on this funding source

Background on Medicaid

- Publicly funded health insurance program
- Enrolls over 50 million people
- Paid for 16% of all healthcare in 2005
- Jointly funded by federal & state government
- Primarily administered by states
- State flexibility in benefits & coverage
- Total spending was about \$300 billion FY 2006
- Largest funding source for long-term care
- State action just as important as federal action

Overview: Medicaid & Nonprofits

- Many healthcare providers are nonprofit (predominant in health and social-assistance)
- Because Medicaid is a major funding source for healthcare, nonprofits rely on this funding – but to differing degrees
- The percent of health care providers that are nonprofit varies with the services they provide (home care, hospital, skilled nursing care, etc.)

Number & Percent of Tax Exempt Healthcare Establishments, 2002

Source: U.S. Economic Census

Service/Industry	Total number	Tax exempt	Percent tax exempt
General Medical Hospitals	3,782	3,085	81.6%
Outpatient MH & SA	7,978	5,199	65.2%
Residential MR	28,508	18,730	65.7%
Community Care for Elderly	17,988	4,649	25.8%
Nursing Care Facilities	16,568	3,467	20.9%

How Medicaid Money Flows to Nonprofits

- Payments/fees for services
- Contracts for services
- Intergovernmental transfers
- Disproportionate share hospital payment (DSH)
- Administrative costs

Methods & Data Sources for Estimating the Amount of Medicaid Money Going to Nonprofits

- Medicaid expenditures: CMS Form 64
- Percent of nonprofits by industry and reliance on Medicaid: Existing literature, U.S. Economic Census, industry estimates, healthcare data from Kaiser Commission

Health Sub-Sectors Examined

- Hospitals
- Nursing homes
- Mental health
- Managed care
- Home and community care

Hospitals

- Not-for-profit community hospitals were 71% of all hospital beds (2001)
- Percent of hospitals that are nonprofit varies greatly by state (33% of total – nearly 100%)
- Total hospital spending (including inpatient, outpatient & DSH) was \$62 billion in 2004
- **Estimate: \$44 billion in Medicaid funding went to nonprofit hospitals in FY 2004**

Nursing Homes

- 27.1% of nursing home beds are in not-for-profit nursing homes
- Medicaid spent \$40 billion on nursing care in 2004
- **Estimate: \$11 billion in Medicaid funds went to nonprofit nursing homes in FY 2004**

Mental Health & Substance Abuse

- Difficult to pinpoint mental health and substance abuse spending (could include Rx, case management, inpatient/outpatient hospital or other services)
- One estimate claimed that \$26 billion went to SA/MH providers in 2001
- Estimated that nonprofits constitute 65%
- The one defined category is Mental Hospital and Mental Hospital DSH – which is \$5.5 billion
- **Estimate: \$5.5-\$16.9 billion in Medicaid funds went to nonprofit substance abuse and mental health providers in 2004**

Managed Care

- 25-37% of managed care enrollees are in nonprofit managed care plans
- Medicaid spent approximately \$37.4 billion on managed care in FY 2004
- **Estimate: \$9.4-\$13.8 billion in Medicaid funds went to nonprofit managed care organizations in FY 2004**

Home and Community-Based Long-Term Care

Sources: CMS Form 64/Economic Census for home health

Expenditure Category / Service	Percent of industry that is nonprofit	Total expenditures 2004 (billion)	Estimate of total MA \$ going to nonprofits
Frail Elderly	at least 50%	\$0.37	\$185 <u>m</u> illion
HCBS Waiver	at least 50%	\$20.50	\$10.3 billion
Home Health	19.2%-48%	\$3.45	\$ 662 m-\$1.7 billion
Hospice	34.20%	\$1.14	\$ 390 <u>m</u> illion
ICFMR (private)	65.70%	\$4.55	\$3.0 billion
Personal Care	50-80%	\$6.11	\$3.1-4.9 billion
Total		\$43.08	\$17.5-\$20.9 billion

Summary of Estimated Medicaid Funding to Nonprofits by Sub-Sector

Health sub-sector	Estimate of MA \$ going to NP	Medicaid spending in this category	Proliferation of nonprofits
Hospitals	\$42 billion	Stable	Decreasing
Nursing Homes	\$11 billion	Slowing	Stable
Mental Health	\$5.5-16.9 billion	Volatile	Volatile
Managed Care	\$9.4-13.8 billion	Stabilizing soon	Decreasing
Home & Community Care	\$17.5-20.9 billion	Increasing	Stable
Estimated Total			\$85-\$105 billion

Recent Trends in Medicaid Spending

Source: CMS Form 64 data

Expenditure Category	2004 total (billion)	1994-2004% change
Inpatient Hospital	\$38.5	48%
Case Management	\$2.7	214%
Prescription Drugs	\$40.0	332%
Nursing Facilities	\$45.4	61%
Home & Community Waiver	\$20.5	446%
Home Health	\$3.5	110%
Intermediate Care Facility (private)	\$4.6	40%
Personal Care	\$6.1	104%
Managed Care	\$37.4	8.5% since 1999
Mental Hospital Services	\$3.1	29.1%
Total (All services beyond & including this list)	\$279.4	104.1%

Recent Changes in Medicaid That Will Affect Nonprofits

- States recently expanded Medicaid covered populations and services
- Federal government increased state flexibility (DRA)
- Waivers & policies shifting where patients get care (i.e., home, community)
- Federal spending constraints (UPL, IGT) impact certain types of healthcare providers
- Health spending grows faster than social service spending, so nonprofits adapt

Organizational Effects of Nonprofit Reliance on Medicaid Funding

- “Medicalization” of services
- Professionalization of quasi-health services
- Instability in funding
- State-by-state variance

Future Research Questions

- Are smaller nonprofits likely to consolidate and form larger, professionalized entities when/if Medicaid retrenches?
- How do multi-state nonprofits deal with state differences/changes in Medicaid funding?
- Are there certain types of nonprofit organizations that are winners/losers given Medicaid funding trends?
- What is the combined impact on nonprofits of changes in Medicaid and other funding?

Acronyms

- CMS – Center for Medicare & Medicaid Services
- DSH – Disproportionate share hospital
- HCBS – Home and community based services
- ICF/MR – Intermediate care facility/mentally retarded
- IGT – Intergovernmental transfer
- MA – Medicaid
- NP – Nonprofit
- SA/MH – Substance abuse mental health
- UPL – Upper payment limit

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